



Gay Lea Foods Co-operative Limited 1976 ANNUAL REPORT



Think about it.



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ZONE MEETING AGENDA

Lunch

Introductions

President's Address

Presentation of Desk Sets

1. Minutes
2. Chairman's Remarks
3. Election of 10 Delegates for 3 year terms
4. Directors' Report
5. Presentation of By-Law No.11,
Special Resolution and By-Law No.12
6. Management Report
7. Financial Statements
Question Period
8. Election of Zone Director — 2 year term
9. Discussions and Questions
Adjournment

FINANCIAL HIGHLIGHTS

	1976	1975	% change
Sales	\$92,670,577	\$72,606,668	+ 27.6
Net Earnings	978,377	1,030,362	— 5.0
% of Sales	1.1	1.4	— 21.4
Shareholders' Equity	5,732,247	4,637,213	+ 23.6
Per Share	32.45	29.19	+ 11.2
Working Capital	4,779,603	3,333,842	+ 43.4
Number of Shareholders	3,616	3,633	— 0.5
Declared Dividend	141,303	127,087	+ 11.2
Per Share	.80	.80	—



**1975-1976
BOARD OF DIRECTORS**

Standing (left to right)

Howard Wilson, Owen Sound (Director)
Robert Turner, Owen Sound (Director)
Bert Tuintjer, Laurel (Director)
John Campbell, Bayfield (Director)
David Ireland, Teeswater (Director)

Seated (left to right)

Walter Hamel, Elmwood (Vice-President)
Melville Proud, Tara (President)
Russell McCutcheon, Owen Sound
(2nd Vice-President)
Gerald O'Grady, Listowel, (Director)

DIRECTORS' REPORT

to the 1976 Annual Meeting

Your Board of Directors is pleased to present its report to the member shareholders of our co-operative for the past financial year. As our business continues to expand and diversify the Directors' responsibilities become more complicated and require greater attention. In order for us to fulfill our role as your elected representatives we have had directors' manuals prepared, outlining our responsibilities and job descriptions. At the same time management has improved their system of reporting to the Board at our monthly meetings. These two changes have developed out of a board and management seminar which was held early in the year and we believe the new approach will improve the overall management of your co-operative in future years.

OPERATIONS

There were no acquisitions or major changes in operations during the year under review. The most important development in the co-operative's operations was the alarming drop in industrial milk supplies which followed the severe cut-back in producers' over-quota milk during the summer. Although a small relaxation of the new policy was announced in August it was too late to be of much benefit to the industrial milk plants in this fiscal year. This factor, along with the month-long strike at our Tara plant — the first strike in our 18 year history — is reflected in the reduced earnings for this year. The former manufacturing plant at Villa Nova is still for sale. The farm on the property was sold during the year and, because of severance problems which prevented a sale, one of the houses is rented.

CO-OPERATIVE CORPORATIONS ACT, AND AMENDMENTS

Your Board requested the co-operative's lawyer to review the by-laws and recommend any changes which should be made in order to bring them into line with the new Act and its Amendments. This was done during the year and the Board approved the various changes which were suggested. The delegates will be asked to confirm By-Law No. 11, which incorporates these changes, at the Annual Meeting.

The Director of the Co-operatives Branch, Ontario Ministry of Consumer and Commercial Relations, attended our May board meeting and reviewed with us the Act and its effect on our co-operative. 'The Co-operative Corporations Amendment Act, 1976' was drafted this year and is expected to become law in the ensuing months.

SPECIAL RESOLUTION

Your Board of Directors feel that the Share Appreciation Program, which has been in effect since January, 1971, has been a good one for our shareholders. However, one of the amendments to the Co-operative Corporations Act referred to above will prevent any co-operative from selling or redeeming shares at an amount other than their par value. Therefore your directors decided they had no choice other than to recommend discontinuing the Share Appreciation Program, and, if the Annual Meeting approves, to make application to the Ontario Government for an increase in the par value of our shares from \$10.00 to \$15.00. When the increase in par value to \$15.00 has been approved, and the Amendments to the Co-operatives Act have been passed, it will be possible for your co-operative to pay a maximum of 10% dividend on Common Shares. This larger dividend than we have been able to pay in the past will, to some extent, offset the loss of the Share Appreciation Program. Your Board of Directors will also be considering in future years whether to recommend the payment of a patronage dividend to members.

The Annual Meeting will also be asked to approve the second provision of the Special Resolution, increasing the Share Capital of the Co-operative from 200,000 to 400,000 shares.

BY-LAW NO. 12

By-Law No. 12, which relates to directors' terms and elections, is being presented for approval. This new by-law changes the number of years a director can serve continuously from six two-year terms to six three-year terms. It also changes the basis for election of directors from electing four directors to six directors at the Zone Meetings and from five directors to three directors At Large at the Annual Meeting.

DIVIDENDS

Because the Amendments to the Act had not been passed at the end of our fiscal year, and because the par value of our shares was \$10.00 at that date, your directors have again declared the maximum dividend of 80c per share on common shares.

During the past year, our shares have been allotted at \$14.00. Following the approval of the increase in par value to \$15.00 this will give our shares an appreciation of \$1.00 this year, which will actually end our Share Appreciation Program.

DEBENTURE INTEREST

Effective February, 1976, the Board increased the 3 and 5 year debenture interest rates to 9% and 10% respectively; the interest rate on 10 year debentures remained unchanged at 10½%.

MEMBERSHIP

Membership dropped slightly below last year's figure at the end of the fiscal year. 85 new members joined the co-operative and 102 were lost due to members leaving the province, retirement and death, leaving a total of 3,616 compared with 3,633 a year ago. The static membership level remains an area of some concern to your Board. The number of members leaving the co-operative this year exceeds the total of new members for the first time. Greater efforts have to be made to attract producers into joining the co-operative if the membership is to be maintained.

EDUCATION

The delegates' fall tour visited the Syracuse area in October, including the Dairy Research Farm at Fabius, N.Y., a large dairy farm and several Agway locations. The 82 directors, delegates and their wives found the trip an interesting and enjoyable experience. The Board and Management represented your co-operative at many meetings and conferences during the year, including the International Dairy Federation Convention in Quebec City in October. This was the first time that the I.D.F. had met in Canada and we were pleased to be a part of these international proceedings.

Your Board continued to play a tangible role in farm and agricultural affairs and in the past year we again presented the Gay Lea Silver Award for the highest score in judging dairy cattle at the Royal Winter Fair (Youth Activities); presented cash prizes to two runners-up in the Ontario Dairy Princess Contest; arranged an information booth at the Ploughing Match in Bruce County in September; sponsored the attendance of two young women at the Co-op Youth Week, Geneva Park; contributed towards the cost of sending a co-op manager to Barbados to assist a dairy co-operative there, and we again supported the Co-operative Union of Canada, Dairy Farmers of Canada, Ontario Federation of Agriculture and the Rural Learning Association, as well as several trade associations, by means of membership fees or donations.

DIRECTORS' REPORT

(continued)

ANNUAL REPORT

The Co-operative Corporations Act, as amended, requires notices to be mailed to members 10 days prior to zone and annual meetings. Our Annual Meeting has customarily been held on the first Tuesday in December and the Board feels that this is a satisfactory date. However, the "10 days" stipulation does not allow sufficient time for our printed Annual Report to be completed, (following the approval of the audited statements by the Board), and mailed to members along with the meeting notices 10 days in advance. The Board decided, therefore, to mail copies of the sections of the financial statements which we are required to mail in advance, along with the notices of the zone and annual meetings, rather than sending the printed report to all members this year. Copies of this report will be available at the meetings, at our branches and head office on application and from our fieldmen.

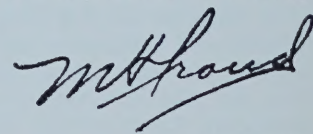
CLAYSON ROAD ADDITION

The addition to the Clayson Road head office building was completed in the spring. The former boardroom was converted to offices for the marketing staff and a new boardroom added, plus some additional office space.

STAFF

Our total staff at the end of the fiscal year was 434, a reduction of 28 from a year ago. A number of employees are now buying shares in the co-operative on the payroll deduction plan and your directors appreciate this vote of confidence.

If there is one thing which co-operation teaches us, it is that people are more important than money or property. None of the achievements of Gay Lea Foods Co-operative would have been possible without the loyalty and whole-hearted efforts of management and staff. And so we say, on behalf of the people who elect and control us, to the people who produce the results, 'Thank you'.



M. H. PROUD,
President



Delegates' tour to Syracuse, New York, October 1976



CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended September 30, 1976 (With 1975 figures for comparison)

	1976	%	1975	%
SALES	\$92,670,577	100.0	\$72,606,668	100.0
COST OF GOODS SOLD				
(Including \$612,590 depreciation in 1976 and \$533,211 in 1975) (Note 1)	85,551,968	92.3	65,899,499	90.8
GROSS MARGIN	7,118,609	7.7	6,707,169	9.2
SELLING, GENERAL & ADMINISTRATIVE EXPENSES				
Depreciation (Note 1)	160,907		123,445	
Remuneration of directors and senior officers.	233,841		198,042	
Interest on long term debt.	424,219		279,315	
Interest on short term loans	103,532		34,668	
Goodwill written off	—		525,854	
Other expenses	4,595,278		3,381,021	
	5,517,777	6.0	4,542,345	6.2
EARNINGS ON OPERATIONS	1,600,832	1.7	2,164,824	3.0
GAIN (LOSS) ON DISPOSAL OF FIXED ASSETS — NET	51,184	0.1	(24,192)	(0.1)
EARNINGS BEFORE INCOME TAXES	1,652,016	1.8	2,140,632	2.9
PROVISION FOR INCOME TAXES (Note 1)	673,639	0.7	1,110,270	1.5
NET EARNINGS FOR THE YEAR	\$ 978,377	1.1	\$ 1,030,362	1.4

The accompanying notes are an integral part of these financial statements.

G.H. WARD & PARTNERS

Chartered Accountants

77 CITY CENTRE DRIVE
MISSISSAUGA, ONTARIO L5B 1M5

(AREA CODE 416) 270-7700

**AUDITORS'
REPORT**

To the Shareholders
Gay Lea Foods Co-operative Limited

We have examined the consolidated balance sheet of Gay Lea Foods Co-operative Limited, and its subsidiaries, as at September 30, 1976 and the consolidated statements of operations, general reserve, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the co-operative and its subsidiaries as at September 30, 1976 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

G. H. Ward & Partners

Toronto, Ontario
November 4, 1976

Chartered Accountants

GAY LEA FOODS CO.

and Subsidiaries

CONSOLIDATED BALANCE SHEET

(With 1975 figures restated)

ASSETS

CURRENT

	1976	1975
Cash	\$ 612,486	\$ 875,053
Accounts receivable, less allowance for doubtful accounts (1976 — \$67,945; 1975 — \$74,503)	6,195,695	5,940,128
Inventories, valued at the lower of cost or net realizable value (Note 1)	6,517,292	6,820,678
Prepaid expenses	98,375	94,708
Taxes recoverable	332,231	62,953
Total current assets	<u>13,756,079</u>	<u>13,793,520</u>

PROPERTY AND EQUIPMENT (Note 1)

	Cost	Accumulated Depreciation	Net		
Land	\$ 211,987	\$ —	\$ 211,987		
Buildings	2,795,871	480,770	2,315,101		
Machinery and equipment	6,795,752	3,658,415	3,137,337		
Automobiles and trucks	1,084,297	755,688	328,609		
Leasehold improvements	71,121	31,146	39,975		
	<u>\$10,959,028</u>	<u>\$ 4,926,019</u>		<u>6,033,009</u>	<u>5,796,814</u>

OTHER ASSETS

Accounts receivable, not due within one year	17,690	20,753
Mortgages receivable	194,005	213,334
Investments in other co-operatives — at cost	49,805	41,435
Total other assets	<u>261,500</u>	<u>275,522</u>
Total assets	<u>\$20,050,588</u>	<u>\$19,865,856</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Board:
M. H. PROUD, Director
W. HAMEL, Director

ERATIVE LIMITED

Companies

T AT SEPTEMBER 30, 1976

(comparison)

LIABILITIES AND MEMBERS' EQUITY

CURRENT

	1976	1975
Outstanding cheques	\$ 913,194	\$ 911,281
Bank Loan	—	228,000
Accounts payable and accrued expenses	7,403,952	8,480,397
Current portion of long term debt (Note 1)	659,330	840,000
Total current liabilities	8,976,476	10,459,678

DEFERRED INCOME TAXES (Note 1)	867,000	502,735
LONG TERM DEBT (Note 2)	4,454,881	4,247,076
Total liabilities	14,298,357	15,209,489

MEMBERS' EQUITY

Capital Stock
Authorized:

200,000 Co-operative common shares of
\$10 par value. \$2,000,000

Issued and fully paid:

176,629 Co-operative common shares of which 17,770
shares were issued during the year for cash . . . 1,766,290 1,588,590

Partial payments received on common shares
subscribed for, but not yet issued 19,984 19,154

Contributed Surplus (Note 3)	173,988	107,944
General reserve	3,791,969	2,940,679
Total members' equity	5,752,231	4,656,367
Total liabilities and members' equity	\$20,050,588	\$19,865,856

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the year ended September 30, 1976

(With 1975 figures for comparison)

	1976	1975
BALANCE, beginning of year	\$ 2,940,679	\$ 2,027,239
Deduct: Dividend on common shares — 80c per share.	127,087	116,922
	<u>2,813,592</u>	<u>1,910,317</u>
Net earnings for the year	978,377	1,030,362
BALANCE, end of year.	<u>\$ 3,791,969</u>	<u>\$ 2,940,679</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended September 30, 1976

(With 1975 figures for comparison)

SOURCE OF FUNDS

	1976	1975
Net funds derived from operations		
Net earnings for the year	\$ 978,377	\$ 1,030,362
Add: Charges to operations which did not require the outlay of funds		
Depreciation	773,497	656,656
Goodwill written off	—	525,854
Deferred income taxes (Note 1)	364,265	179,001
Total arising from operations	<u>2,116,139</u>	<u>2,391,873</u>
Decrease in current portion of long-term debt.	180,670	—
Repayments on mortgages receivable	19,329	53,074
Mortgage advances.	—	1,325,063
Funds received on notes payable.	345,000	1,255,800
Debentures issued	218,800	364,860
Common shares issued.	177,700	164,850
Disposal of fixed assets — net book value	109,690	107,364
Decrease in long term accounts receivable.	3,063	23,545
Increase in partial payments received		
on shares subscribed for, but not yet issued	830	364
Contributed surplus (Note 3)	66,044	45,936
	<u>3,237,265</u>	<u>5,732,729</u>

APPLICATION OF FUNDS

Increase in current portion of long term debt	—	481,660
Additions to property and equipment.	1,119,382	2,909,718
Dividends on shares.	127,087	116,922
Reduction of debentures.	59,570	99,570
Reduction of notes payable.	180,800	—
Increase in mortgages receivable	—	67,695
Increase in investment in other co-operatives	8,370	130
Mortgage repayments	296,295	72,089
Goodwill purchased.	—	525,854
	<u>1,791,504</u>	<u>4,273,638</u>

INCREASE IN WORKING CAPITAL.	<u>\$ 1,445,761</u>	<u>\$ 1,459,091</u>
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WORKING CAPITAL

Current Assets.	\$13,756,079	\$13,793,520
Current Liabilities.	8,976,476	10,459,678

WORKING CAPITAL.	<u>\$ 4,779,603</u>	<u>\$ 3,333,842</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1976

1. ACCOUNTING POLICIES

Principles of Consolidation

The subsidiary companies consolidated in these financial statements are Villa Nova Milk Products Limited, CF Capital Foods Limited and Gay Lea Foods of Pennsylvania, Inc. Except for a nominal minority interest in Villa Nova Milk Products Limited these subsidiaries are wholly-owned and are consolidated as at September 30, 1976.

Inventories

Manufacturers and cutters of butter are permitted, under an arrangement with the Canadian Dairy Commission, to sell butter to the Commission for government storage, during certain periods, at a fixed price. The Commission then undertakes to resell the butter back to the manufacturer or cutter during a specified period at the current government purchase price for such butter.

At September 30, 1976, butter in government storage, priced at the lower of the co-operative's cost or net realizable value, amounted to \$1,520,188, and is included in the total inventory figure of \$6,517,292 as shown in the co-operative's balance sheet. Funds advanced by the Canadian Dairy Commission relating to butter held in government storage at September 30, 1976 amount to \$1,500,461 and is included in the balance sheet as part of accounts payable and accrued expenses. This accounting treatment is consistent with the previous year.

Depreciation

Depreciation has been provided on the fixed assets of the co-operative on a straight-line basis at rates estimated to provide fully for the cost of the fixed assets over their useful lives, as follows:

Building	— 2½%
Machinery and equipment	— 10%
Automobiles and trucks	— 30% in first year decreasing to 10% in fifth year
Leasehold improvements	— amortized over the period of the lease

Income Taxes

Income taxes charged in the consolidated statement of operations represent both the current portion of \$309,374, and a deferred portion of \$364,265. The deferment of income taxes results from claiming depreciation for tax purposes in amounts which exceed the charges recorded in the accounts. The accumulated total of such income tax deferment, \$867,000, is reflected in the consolidated balance sheet as "Deferred Income Taxes."

2. LONG TERM DEBT

Debentures	5% \$	5½% \$	6% \$	7½% to 7¾% \$	8-8½% \$	9-10½% \$	Total \$
1977 & prior	3,130	130	46,750	11,990	125,540	—	187,540
1978	10,970	—	6,060	470	27,010	—	44,510
1979	700	—	500	—	500	28,790	30,490
1980	—	400	4,420	—	54,800	113,710	173,330
1981	—	260	11,500	—	114,880	67,400	194,040
1982	—	1,910	6,330	—	26,250	—	34,490
1983	—	24,360	2,700	—	29,170	—	56,230
1984	100,000	29,910	—	—	6,080	17,370	153,360
1985	100,000	102,600	—	—	20,000	257,460	480,060
1986	100,000	—	—	—	—	102,910	202,910
1987	100,000	—	—	—	—	—	100,000
1988	90,000	—	—	—	—	—	90,000
	504,800	159,570	78,260	12,460	404,230	587,640	1,746,960

Less: Portion due within one year							187,540
							1,559,420

Mortgages

5¼% payable over the next 7 years in equal instalments of \$46,730.	\$ 327,111
8% due 1986, payable \$12,500 per annum.	125,000
6% due 1976, payable \$10,000 per annum.	10,000
10% due 1980, payable \$221,800 per annum.	887,200
9¼% due 1978, payable \$2,035 per month.	207,940
	1,557,251

Less: Portion due within one year	296,790
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1,260,461

Notes Payable

7% due 1977 - 1978	\$ 65,000
7-1/2% due 1981	125,000
7-3/4% due 1977	40,000
7-7/8% due 1985	60,000
8% due 1979	11,000
8% due 1980	14,000
9% due 1978	20,000
9-3/8% due 1977	75,000
10% due 1981	200,000
10-1/4% due on demand	100,000
10-1/4% due 1978 to 1985	100,000
1% above prime bank rate due 1978	1,000,000
	1,810,000

Less: Portion due within one year	175,000
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1,635,000

TOTAL LONG TERM DEBT **\$4,454,881**

During the year, new debentures totalling \$218,800 were issued and debentures totalling \$59,570 were redeemed.

3. CONTRIBUTED SURPLUS

Effective January 1, 1971 the co-operative commenced issuing common shares at a price in excess of their par value of \$10. The increase in the contributed surplus during the year of \$66,044 represents the premium received from these common share transactions during the year.

4. NON-MEMBER BUSINESS

Non-member business for the year ended September 30, 1976 was approximately 42% of the total volume.

5. COMPARATIVE FIGURES

Certain 1975 figures on the Consolidated Statement of Changes in Financial Position have been restated to conform with the current year's presentation.

MANAGEMENT REPORT

for year ending September 30, 1976

Your management report for the year under review is presented with mixed feelings. We are pleased with an overall sales increase of 27.6% over last year and relatively good net earnings of 1.1% of sales. However, we are concerned about the severe drop in milk volume during the summer months and its effect on volume and net earnings not only for the year just ended but also in future years.

Knowing that our milk volume is going to be considerably less than in the past few years, the challenge that your management faces is in identifying and pursuing the opportunities in diversification. These opportunities include increased sales of cheese and special dairy products, further penetration of the Eastern Canada market with our edible oil products, consolidation and automation of our egg marketing and a more viable food service operation. Along with the opportunities mentioned above we have initiated an austerity program on expense control in order to reduce our cost of production and distribution. The four Divisional Reports — Production, Marketing, Finance and Employee Relations — will give you more detail on operations.

The directors' report has stated that your co-operative now has to comply with the Ontario Co-operative Corporations Act and subsequent amendments. This has necessitated discontinuing our share appreciation program which has been a very good one for both the member shareholders and your co-operative. As your General Manager, I want to say that it was with some regret that this change was recommended but your directors had no choice if we wanted to keep our organization in the co-operative family. It is now up to you and I to endorse the new program that has been outlined to you and to give your co-operative the same support that you have always demonstrated.

PRODUCTION

In March 1976 the Canadian Dairy Commission advised all provinces that Canada's total industrial milk requirements under the Market Share Quota (M.S.Q.) program would be reduced by 18% effective April 1, 1976. This meant that most Ontario milk producers would be faced with significant quota cuts from their 1975/76 M.S.Q. shipments. In mid-April the Federal Dairy policy was announced. It raised the support prices for butter by 5c to \$1.08 per lb, skim milk powder by 4c to 68c lb, and the target price for milk by 43c to

\$11.45 per cwt. Ontario's M.S.Q. allotment was reduced by 15%, equivalent to ½ billion lbs of milk. Under the systems of classified pricing and plant supply quotas, and with no material changes in the requirements of the quota-free classes, this meant that the entire reduction would come off the supplies available for butter-powder plants such as Guelph and Tara, and for the cheddar cheese factories in Ontario. Initially it was estimated that their volumes would be reduced about 23%. It is now evident that the decrease will be much greater. Milk producers felt the full impact of the reduction in M.S.Q., the monthly application of quota, and the severe over-quota penalties, when they received their milk cheques in June. Over-quota levies totaling about \$6.2 million were deducted. Many producers ended up owing, rather than receiving money for their shipments. The message was clear, even though some \$4 million was refunded later.

In June 1974, after 30 months of consecutive decreases in Ontario's milk production, and encouraged by higher support prices and \$40 million in loans through IMPIP (Industrial Milk Production Incentive Program) milk producers began to respond and to increase their production. Two short years later it is evident that the Supply Management Program has not been well managed, and both producers and processors are badly hurt in the process. In the period covered by this report, total marketings of milk in Ontario increased by 2.5% to 5.3 billion lbs. Class I (fluid) sales were steady at 2.1 billion lbs; all other quota-free classes were unchanged and totalled one billion lbs. leaving quota classes V and V(a) (butter-powder and cheddar cheese) an increase of 5% to 2.1 billion lbs.

The changes that occurred in the last six months of our fiscal year are illustrated in the following table:—

ONTARIO (millions of lbs)				
<u>October/March</u>	<u>74/75</u>	<u>75/76</u>	<u>Inc</u>	<u>%</u>
Class I	1,083	1,081	(2)	—
Classes V and V(a)	645	956	311	48.1
All other classes	485	503	18	3.7
Sub-total	2,213	2,540	327	14.8%
<u>April/September</u>				
Class I	1,072	1,090	18	1.6
Classes V and V(a)	1,393	1,187	(205)	(14.8)
All other classes	533	524	(9)	(1.7)
Sub-total	2,998	2,801	(197)	(6.5)
Twelve month totals	5,210	5,341	131	2.5%



H. J. BROOKS
Vice-President
Finance and
Treasurer

L. A. STEPHENS
Vice-President
Production

T. E. BRADY
Executive
Vice-President
and General Manager

P. J. INFELISE
Vice-President
Marketing

B. P. McGROGAN
Manager,
Employee Relations

GAY LEA MANAGEMENT STRUCTURE

T. E. BRADY

Assistant Secretary — MRS. P. DICK

MARKETING

P. J. INFELISE

Food Service
P. RUSSELL

Dairy Products
G. FICE

Special Services
V. KISHIMOTO

Chain Stores
H. PICKEN

Cheese
H. BURNS

Special and
Edible Oil Products
J. McLEAN

PRODUCTION

L. A. STEPHENS

Guelph
P. McLINDEN

Tara
M. McLEAN

Strathroy
K. GALBRAITH

Seaforth
T. YOUNG

Woodstock
A. SPEIRS

Weston
D. DEVEREAUX

Fenmar
B. CAMPBELL

Research and
Quality Control
V. AMER

FINANCE

H. J. BROOKS

Accounting
J. DUNCAN

Credit
R. SMART

EMPLOYEE RELATIONS

B. P. McGROGAN

The downward trend started in June and by September Classes V and V(a) were running 35% below last year. Ontario now faces the alarming prospect of insufficient milk supplies to meet her domestic requirements for fresh products. Lower milk volume, combined with continuing increases in labour and energy costs, places our milk processing plants at Guelph and Tara in a most difficult position for the coming months.

While volume increased on eggs substantially we did not make satisfactory progress in developing a viable egg operation. Accordingly in September new equipment was installed at Strathroy to increase production capacity sufficiently to permit us to discontinue the grading operation at Woodstock. At the same time our delivery system was changed to fewer but larger delivery trucks, with a substantial reduction in mileage, labour and fuel costs. The installation of a similar grading machine at Seaforth, doubling the capacity of the former machine, but requiring only one extra packer, was completed in October. This permitted the reduction from a double to a single shift schedule, with corresponding reductions in labour requirements. As on milk, egg producers operate under a compulsory Marketing Board with a complex quota system that maintains a provincial production total of about 7 million laying hens. Larger and fewer producers are the result, with varying degrees of integration or contractual arrangements with feed manufacturers. Producer prices are determined by the Board by formula, and a marked stability in prices to producers has been achieved as illustrated.

	Grade A extra	A large	A medium	A small
Oct. 1975	73	69	61	45
Oct. 1976	74	72	64	46

We have been able to establish a good record for service and quality, with both producers and customers alike, and would look forward to making much better progress in the coming year.

Each pound of margarine produced replaces one pound of butter. While the intrinsic flavour characteristic of fine butter is difficult to match in margarine, the gap is narrowing, and, encouraged by lower cost, margarine consumption continues to increase. Unlike industrial milk, margarine manufacture is not hampered by seasonality of production, plant supply quotas, shortage of supply and the supply management efforts of

government. While edible oil production processes and technology differ from dairy products containing butterfat, the same basic principles apply concerning the impact of higher volume in reducing unit costs, the importance of improved quality in gaining consumer acceptance, and the effect production controls can have on improving yields and reducing product costs. We feel substantial progress has been made toward establishing a solid base from which to proceed.

A very important part of our operations is concerned with Quality Control, Quality Assurance and Product Development. In-plant laboratories are maintained at Metro, Fenmar and Guelph to monitor on a day-to-day basis all product production and processes. The central laboratory facilities at Guelph have been expanded significantly, permitting added emphasis to be placed on monitoring the quality and specifications of all incoming supplies of milk, oils and ingredients, and to improve our formulations, processes and technology. Benefits derived from a comprehensive and on-going program, involving both production and control people, may be reflected in improvements in quality, yields, costs of production, and extended shelf life. Quality Awards, as received in competitions on butter and Nordica cottage cheese, provide an added measurement of the overall program. Considerable progress has been made in the development of new and the modification of existing products. In the coming year, work in participation with the National Research Council of Canada, and with the Department of Industry, will be directed toward the application of new technology in product and process development. There is no room in the market place for products of inferior quality, whether it be raw milk from the dairy farm, or finished product from the dairy plant. There is, however, always room for improvement. The future will bring higher standards and the increased enforcement of existing standards. With milk, the chain starts at the farm. All concerned are urged to participate.

MARKETING

During 1976, sales volume increased substantially in several product categories including Yogurt, Cottage Cheese, Sour Cream, Chip Dips, Cheese and Eggs. In addition, our butter sales volume increased during the past year by 15%, contrary to the current trend in Canada which shows per capita consumption declining

during this same period. The butter awards won by your co-operative — 1st place Grand Championship Award at the 1975 Royal Agricultural Winter Fair and Highest Scoring Silver Award at the 1975 and 1976 Canadian National Exhibition — assisted the Marketing Division in attaining this volume increase in spite of the declining market. These awards also demonstrate to the consumer the ability and commitment of Gay Lea Foods to produce quality food products. Although Instant Skim Milk powder sales volume increased 6% the gain was disappointing in view of the potential of this product. Skim Milk powder sales on the domestic and export markets improved significantly with a volume increase of 33%.

The Edible Oils Division continues to emphasize the importance of diversification. Sales in this division increased substantially over last year. During 1975, margarine consumption equalled that of butter and, during 1976 — for the first time in Canada — margarine consumption will surpass butter. This is an important and significant consumer trend and during 1977 higher concentration will be placed on these products in order to increase our share of the market. The steady sales growth of the Food Service Division continues, and volume increased 12%. This area constitutes a large segment of the food industry and represents a major growth opportunity for your Co-operative. Marketing emphasis in this Division should assist in overall corporate growth.

In conjunction with our research and quality control of existing products, there is one area that is of prime importance and that is new product development. The ability to both compete effectively in business and maximize our profits depends on a sustained, successful program for developing and marketing new products. Sound development and marketing of customer-oriented new products is one of the primary conditions of sales and profit growth. The acute loss of industrial milk supplies as a result of substantially lower producer quotas indicates that we have a critical year ahead of us and priority must be placed on achieving our positive volume and profit projections for 1977.

FINANCE

This has been a year of innovation and challenge for the Finance Division. Guelph office facilities were renovated and plans were made to absorb the Fenmar branch office function into head office; progress con-

tinued in the E.D.P. (Electronic Data Processing) area; calendar month-end reporting was switched to four and five week periods; bank borrowings and interest charges were minimized by centralizing all branch bank clearings; changes in various responsibilities were effected at Weston and a two day Accountants' Conference was held in January to discuss our plans for the year.

Prime interest rates rose during the year from 9¼% to 10¼% and this increase, together with larger balances of accounts receivable and inventories to finance, contributed to an increase in our borrowing costs. Although double-digit inflation appears to be behind us, the business community in general is still quite cautious and reluctant to commit themselves to long-term capital projects. Payments have slowed down; inventory levels have been pared; unusual cost control measures have been undertaken. We are fortunate to have good relations within the business community and have had success in generating the required long-term funds to ensure balanced growth and adequate working capital for the co-operative. The accompanying five and ten year reviews highlight our recent accomplishments and indicate problems that await us in the future.

The situation facing Gay Lea in particular and Canada in general can be likened to a puzzle which is full of contradictions and appears to have one or two pieces missing. Ecological concerns are poised against industrial growth and expansion; the problems of unemployment conflict with the solutions to inflation; employee and social benefit demands are countered by employer and government spending programs; government intervention and ownership is clouded by individual endeavours and the role of private enterprise. We are tempted by such events to look for quick, easy answers to our problems and to express concern over the situation. This is not the time, however, for quick answers or for patchwork solutions in either Gay Lea or Canada, but rather, for well constructed and fully developed long-term policies and approaches. We look forward to 1977.

EMPLOYEE RELATIONS

Activity in the past year in the Employee Relations Division has been chiefly centred on an analysis of our needs within the personnel area and the development and implementation of programs and systems to meet those needs. An overhaul of the wage and salary

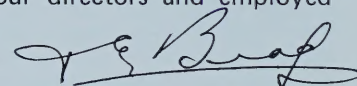
structure of the co-operative was undertaken and this involved the analysis and evaluation of many of our positions, some for the first time. These same analyses have served as the foundation of a system of management performance appraisal which was established during the period. A major manpower exercise was conducted during the year which enabled Gay Lea Foods to identify promotable personnel, develop succession plans for specific positions and, most importantly, to identify the training and development needs within the co-operative. As a result of this exercise a training and development program has been established.

It was unfortunate that we were unable to negotiate a union contract at our Tara plant prior to a strike which lasted from April 1 to 26. This strike cost your co-operative volume and earnings and our Tara employees loss of work and earnings. It was unfortunate because in retrospect we were unable to reach a settlement on account of outside influences. This was the decision of the Canadian Labour Congress not to comply with the Anti-Inflation Board guidelines. However, all other groups within Gay Lea whose compensation was reviewed during the year were accommodated within your Board's policy to comply with the spirit of the Federal Government's Anti-Inflation measures.

A major addition was made to our employee benefits with the introduction of a dental care program. This is a significant step and we believe it reflects Gay Lea's continuing policy of being competitive in all areas of employee compensation.

The year ahead presents a challenge to all aspects of our operations. We believe, however, that we have the personnel to meet this challenge and that the Employee Relations Division has a role to play in ensuring that our people are properly trained, compensated, appraised and motivated.

In concluding this report for 1976, your management, on behalf of all employees, wish to express our appreciation to the member shareholders who own and control our co-operative, to the delegates who represent the general membership and assist in developing policy and monitoring operations, and to the Board of Directors, who are responsible for the overall management of your co-operative. This overall management includes setting policies and guidelines for management to follow and at the same time monitoring results on a regular basis against the objectives and goals that have been agreed upon by our directors and employed management.



Executive Vice-President
and General Manager

FIVE YEAR REVIEW

	1976	1975	1974	1973	1972
OPERATIONS					
Sales	\$92,670,577	\$72,606,668	\$52,744,258	\$42,746,291	\$38,430,826
Gross Margin	7,118,609	6,707,169	5,427,652	3,770,866	3,274,472
Gross Margin — % of Sales	7.7%	9.2%	10.3%	8.8%	8.5%
Net Earnings	978,377	1,030,362	854,078	556,151	311,098
Net Earnings — % of Sales	1.1%	1.4%	1.6%	1.3%	0.8%
Return on Investment	9.6%	11.6%	15.6%	10.1%	6.4%

FINANCIAL POSITION

Working Capital	4,779,603	3,333,842	1,874,751	1,307,478	1,602,803
Current Ratio	1.53:1	1.32:1	1.26:1	1.25:1	1.38:1
Total Assets	20,050,588	19,865,856	13,016,688	10,883,336	9,352,568
Long-Term Debt	4,454,881	4,247,076	1,954,672	2,887,942	2,901,632
Shareholders' Equity	5,732,247	4,637,213	3,512,988	2,585,546	1,964,048

PER COMMON SHARE

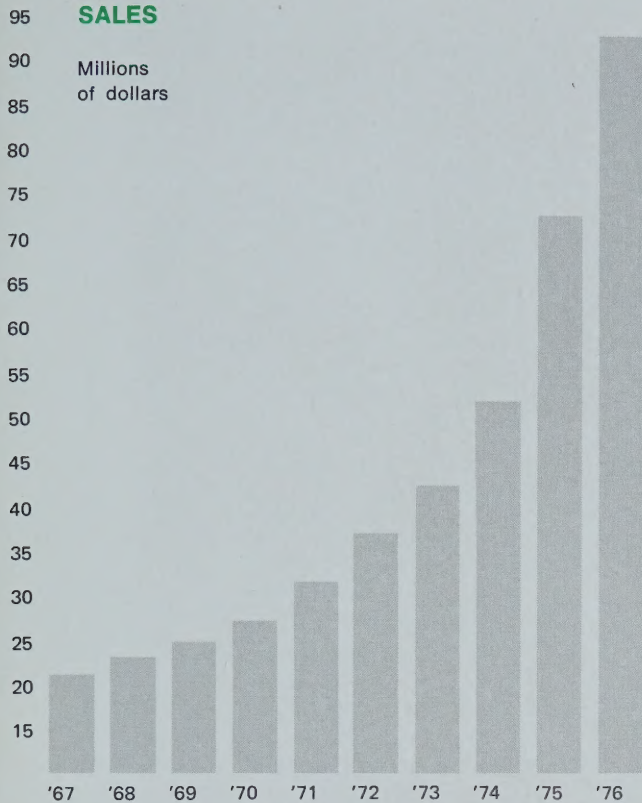
Net Earnings	5.54	6.49	6.00	4.36	2.73
Net Book Value	32.45	29.19	24.67	20.25	17.35

OTHER

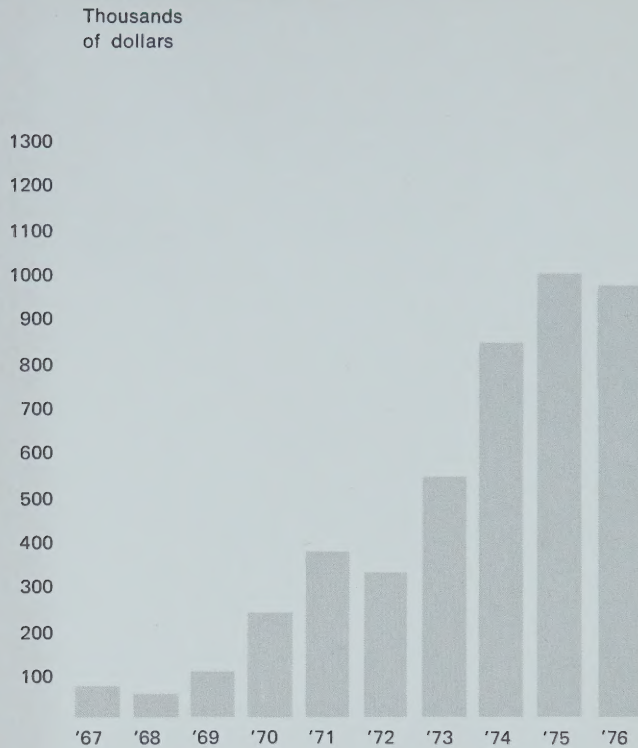
Dividends — common shares	127,087	116,922	102,117	91,052	80,607
Dividends — common share	.80	.80	.80	.80	.80
Number of Employees	434	442	343	330	257

TEN YEAR REVIEW

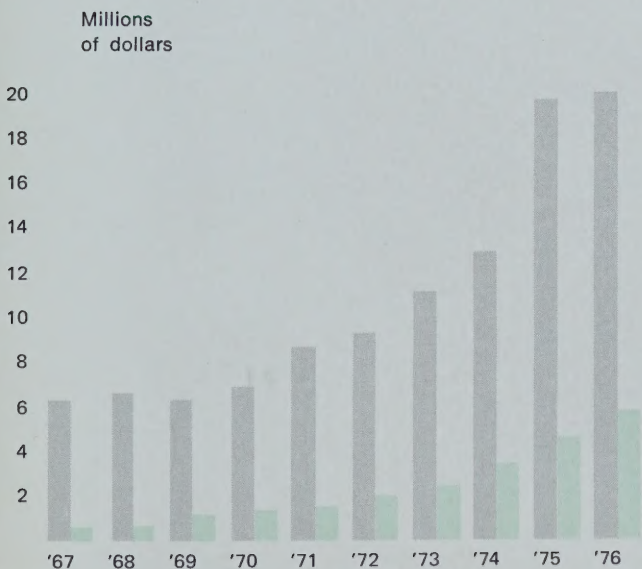
SALES



NET EARNINGS



TOTAL ASSETS/MEMBER EQUITY

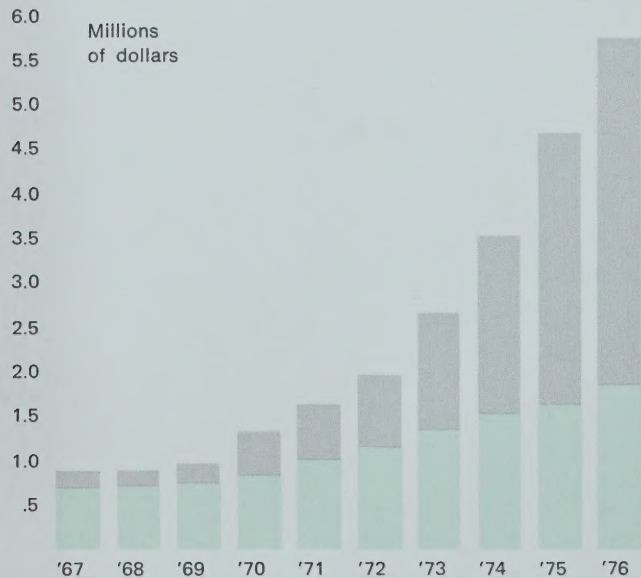


% Member equity to total assets

14.1 13.0 15.4 18.6 17.6 21.5 23.9 26.9 23.1 28.6

Total assets
 Member equity

MEMBER EQUITY



General reserve
 Shares

